



Bitcoin and Ether: Should You Invest?

Description

Bitcoin and Ether have been taking a beating lately, falling precipitously from the highs they had set just weeks before. As of this writing, Bitcoin was \$46,000, down from nearly \$80,000 at its peak in April. Ether, too, has been trending downward. It's a situation that looks a lot like it did in 2018, when BTC fell 80% from top to bottom. In this article, I'll explore whether crypto is worth buying on the dip or staying away from.

Reasons for the recent losses

A few reasons have been given for crypto's recent losses. Some of the big ones include the following:

- **Elon Musk saying that he would stop accepting Bitcoin.** Elon Musk [recently tweeted out](#) that Tesla would stop accepting BTC as a payment method. His pro-Bitcoin tweets were thought to have partially driven this year's rally, so perhaps his vote of non-confidence could have played a role in its decline.
- **China banning crypto.** China recently banned its banks from accepting crypto transactions. That removed many of the "off ramps" Chinese citizens need to convert crypto into cash. Chinese citizens can still mine crypto and purchase things with crypto, but they can't convert it into RMB.
- **Normal volatility.** A 50% drop isn't really a big deal for crypto. BTC dropped 80% between 2013 and 2015 and again in 2018. Viewed in this light, the recent crypto selloff could be seen as regular volatility, rather than as a noteworthy "event" in itself.

Will BTC and Ether make a comeback?

It's one thing to note that crypto has bounced back from bigger dips than the recent one, but quite another to say that it will bounce back this time. The most recent crypto correction was associated with at least two pieces of genuinely bad news. If nobody thinks that Bitcoin is ever going to be used by legitimate businesses, then it could continue to sell off from here. Hindsight it always 20/20, and what looks obvious now wasn't clear to the person in the driver's seat.

The value of diversification

If the recent crypto correction contains any lesson, it's this: *you need to diversify*.

Crypto might make sense as, say, 5% of your portfolio, but it's much too risky to bet everything on.

For the "bread and butter" of your portfolio, it's wiser to [stick to index funds](#) like **iShares S&P/TSX 60 Index Fund (TSX:XIU)**. XIU is an index ETF built on the TSX 60 — the 60 largest publicly traded Canadian companies by market cap. A fund like this has built-in diversification, which reduces risk considerably. In this case, the diversification benefit comes from the full 60 stocks that underlie the portfolio. In exchange for that diversification and automatic re-balancing, you pay a tiny 0.16% annual fee. That's not really expensive at all. And by adding it to your portfolio, you dramatically reduce your risk.

You can even get into bond funds like the **BMO Mid-Term Investment Grade U.S. Investment Grade Corporate Bond ETF** and reduce your risk even more. It's probably a more sensible way to invest over the long haul than going all crypto.

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